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RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0763  
RUEHLB/AMEMBASSY BEIRUT PRIORITY 4843  
RUEHDO/AMEMBASSY DOHA PRIORITY 0464  
RUEHKU/AMEMBASSY KUWAIT PRIORITY 1299  
RUEHMK/AMEMBASSY MANAMA PRIORITY 0649  
RUEHRH/AMEMBASSY RIYADH PRIORITY 7937  
RUEHRO/AMEMBASSY ROME PRIORITY 0901  
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 2085  
RUEAIIA/CIA WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [SY](#) [KCOR](#)  
SUBJECT: SARG STUMBLING THROUGH FUEL CRISIS

REF: 07 DAMASCUS 949

Classified By: Charge d'Affaires Todd Holmstrom for reasons 1.4(b,d)

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SUMMARY  
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11. (C) Unseasonably cold weather, perhaps the coldest January in the last decade, has increased Syrian demand for heating fuels. Anecdotal information from Syrians, and our own observations, convey a situation in which increased demand, particularly for diesel (mazout), has exhausted supplies and driven black market prices up beyond the SARG's ability to control. The resulting shortage has led to significant public criticism of the government, both for its management of this crisis and for the on-going debate over lifting fuel subsidies. The SARG's response has been to alternately deny that there is a problem, then blame smugglers, and finally to admit that increased demand has placed unprecedented strain on supplies. Industry sources tell us that the SARG simply failed to plan for the increased demand and did not place sufficient orders to meet it. The crisis is having a cumulative effect as people turn to alternative energy sources -- such as butane gas and electricity -- which are also experiencing inflation and shortages. Speculation among informed sources is that the SARG may use this situation to condition the public to higher prices before lifting diesel subsidies when warmer weather arrives.

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A PERFECT STORM GATHERS  
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12. (U) In early January, Syrian police suddenly closed approximately 60-100 privately-operated gas stations throughout the country. At the time, the SARG justified this action as part of an on-going campaign to crack down on the rampant smuggling of subsidized Syrian diesel to neighboring countries, where it is sold at market prices -- five times the subsidized Syrian price. (Note: Diesel is the primary

fuel for home heating in Syria. End note.) By the second week of January, fuel lines appeared at government-run gas stations, with reports of customers being limited to purchasing 20 liters of mazout per person. As the exceptionally cold weather persisted for a third week, Syrians were shocked when diesel distributors began refusing requests to re-fill home tanks that had not yet run dry. Those Syrians fortunate enough to receive a visit from a mazout truck were charged from 10.5 to 12 Syrian Pounds (SYP) per liter, a 40-60 percent increase over the government-fixed price of 7.4 SYP/liter. Unable to afford mazout at this price, many poor Syrians have turned to alternative fuels for home heat -- including butane, shredded tires, and fuel oil mixed with saw dust.

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SUBSIDY ISSUE AGAIN IN PLAY  
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¶3. (U) Dormant since September 2007 (ref A), rumors resurfaced in mid-January that the SARG would soon lift subsidies on petroleum by-products. Local media reported that the SARG Economic Committee had endorsed a plan to replace mazout subsidies with family ration cards as early as February 2008. Under this plan, the first 500 liters would cost 7.5 SYP per liter, and the next 500 liters would cost 9.5 SYP. Any subsequent mazout purchases would be sold at the market price of 25 SYP (USD 0.50) per liter. As the average "middle class" Syrian family uses approximately 4000-5000 liters of mazout each winter, this increase would have a significant economic impact.

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"DEMOCRACY" IN ACTION  
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¶4. (U) Public outrage over the shortages and the ration card rumors has largely been reflected in local media coverage. On January 21, the government-owned daily Tishreen led with the headline, "No butane, no mazout, no electricity and no firewood...have mercy on us!" One quasi-independent business newspaper, Al Iqtissadiyah, blamed the crisis squarely on SARG officials for hinting that fuel subsidies might soon be cut, claiming that such rumors convinced distributors to hoard remaining supplies until the higher prices were enacted. An editorial in the same publication essentially begged the SARG to go ahead and raise the price just so supplies would again be made available.

¶5. (U) Responding to the criticism, the SARG announced on January 31 that 50 million SYP worth of diesel destined for Iraq had been confiscated at the Al Tanf border crossing over the past three weeks. Petroleum Minister Sufian Allaw then attempted to justify the crisis by claiming that Syrian demand for mazout had increased by 10 percent this month from January 2007. Finally, an unnamed government official leaked a rumor that foreign, private companies would soon be allowed to operate gas stations in Syria, and that Kuwaiti and Qatari companies had already submitted offers.

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NO CONSPIRACY, JUST BAD GOVERNANCE  
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¶6. (C) According to one industry expert with access to the Petroleum Minister, the SARG simply did not anticipate the colder weather (and consequent higher mazout consumption rate), and therefore did not order sufficient supplies from Syria's primary exporters -- Italy (57 percent), Malta, Bulgaria and Turkey. The cold weather has also closed the ports of Banyas, Tartous and Lattakia, which has further delayed distribution efforts for supplies that have already arrived in country. Our contact said that the port closures have also necessitated the cutting of Syrian oil production for export due to lack of storage facilities -- further exacerbating the problem.

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COMMENT

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17. (C) The current crisis is compounded by the SARG's inexperience in managing fuel supplies since becoming a net importer of refined products in 2007. In the political realm, there remains a power struggle between reformers who are focused on the social and economic costs of continuing price supports versus entrenched Ba'ath Party interests loathe to cede control to the free market. The SARG could use this crisis to lower subsidies once supplies return to normal, as some predict, which would provide some relief to its overburdened budget. More likely, the SARG's continued mismanagement of the crisis will feed growing public discontent over the government's perceived indifference to the average Syrian's welfare. The government's handling of this crisis does not bode well for its ability to manage the expected shortage of electricity resulting from a likely summer surge in demand.

HOLMSTROM